DEPARTAMENTO DE ECONOMIA

PUC/RJ

JULHO 1988

TEXTO PARA DISCUSSÃO
Nº 199

LATIN AMERICA'S ECONOMIC STAGNATION: DOMESTIC AND EXTERNAL FACTORS*

Edmar L. Bacha

Revised, May 1988.

*Prepared for the Conference on Comparative Development Experiences in Asia and Latin America. Jointly sponsored by the East West Center/University of Hawaii and IDB/INTAL. Honolulu, April 20-22, 1988. With the usual caveats, I am indebted for comments to the conference participants an to Andrés Bianchi.

SUMMARY

Latin America's post WW-II economic growth record is reviewed, in comparison with Southeast Asia and Southern Europe. An evaluation is also made of the relative importance of external shocks and domestic policy actions and institutions to explain Latin America's economic stagnation in the 1980s.

RESUMO

O desempenho econômico da América Latina no pós-guerra é comparado com o do Sudeste Asiático e o do Sul da Europa. Procede-se também a uma avaliação da importância relativa dos choques externos e das instituições e políticas domésticas para explicar a estagnação escômica da América Latina na década de oitenta.

1. INTRODUCTION

The conference organizers asked me to prepare a paper on Latin America's (LA) economic development. This is unfortunately an impossible task at the moment. For LA, but for a few spasms, has not grown since the beginning of this decade and, moreover, its short term economic prospects do not suggest the end to stagnation to be within sight. What follows is thus a paper on LA's economic stagnation.

The paper is organized as follows. Section 2 reviews the postwar economic record of the region, in comparison with both the industrial countries and the other major regions containing medium income developing economies - Southeast Asia and Southern Europe.

Section 3 deals with the debt crisis and the ensuing stagnation of the LA economies. External shocks and domestic adjustments are evaluated in this section.

Section 4 describes some of the structural maladies of the LA economies, which seem to underlie both the lackluster economic performance of the region in the postwar period, as well as its lethargic response to the debt crisis.

The final section contains a brief discussion about changes in economic policies and institutions, which seem to be needed to prevent stagnation from becoming a permanent feature of LA's economic panorama.

2. POSTWAR ECONOMIC RECORD

In many relevant dimensions, LA's economic development in the postwar period was unsatisfactory, when compared with other medium income developing economies. Thus, although national savings rates have traditionally been relatively high in LA, savings rates increased much faster in Southeast Asia [Table 1(A)]. Moreover, incremental capital-output ratios, although somewhat lower than in Southern Europe, have been much higher than in Southeast Asia. That is, in spite of the relative abundance of natural resources, for the same level of investment there results a much lower GDP growth rate in LA than in Southeast Asia [Table 1(B)] [1].

LA exports continue to be excessively concentrated on a handful of primary products, in spite of the progress of industrialization in the continent. In fact, manufacturing in 1981 was already responsible for the generation of 43.9 percent of GDP excluding services, but its share in total merchandise exports in 1980 was only 22.2 percent. Import substitution failed to blossom into export oriented industrialization as markedly as in other medium income developing economies. For example, in East Asia and Pacific the share of manufacturing in material GDP was not much

---

1 The incremental capital output ratios in Table 1(B) are much higher in the industrial market economies than in the medium income developing countries in general. This is as expected, given their much higher capital-labor ratios.

higher than LA's at 47.2 percent, but the share of manufactures in merchandise exports was three times as large at 65.2 percent. In Southern Europe, manufacturing share in material GDP was 50.5 percent, and its share in merchandise exports was 65.3 percent. It is the inward orientation of LA industry, rather than the degree of industrialization or the overall degree of openess which is in strong contrast with the experience of Southern Europe and the industrial market economies. It is as a consequence of this inward orientation of industry, that the share of total exports in LA's GDP is the lowest of the four groups of countries in Table 1(C).

Furthermore, income distribution remained extremely concentrated, particularly in countries with a long colonial tradition, based on the subjugation of indian cultures or the importation of slave labor, such as Peru, Brazil, or Mexico. What is exceptional in LA - household income shares of the poorest 40 percent in the range of 15 percent - is the rule in Southeast Asia and Southern Europe. Contrarywise, what is exceptional in these two other regions - household income shares of the poorest 40 percent in the 10 percent range - is the rule in LA [Table 2]. Trickle down failed to work in the region as well as it seems to have done elsewhere.

Finally, inflation rates in LA have traditionally been the highest in the world [Table 3]. Even when the tolerance for inflation may vary across regions, and Latin-americans are certainly very tolerant towards it, this price level instability denotes a major malformation in LA's economic system.

In spite of these pitfalls, in terms of per capita income growth, the LA economic performance from the postwar to the early eighties can be described as adequate, both in absolute and relative terms. Thus, per capita incomes in the region were in 1981 twice as high as in 1950. Moreover, since 1965, in spite of a much higher rate of population growth, LA managed (barely) to start closing the gap separating the region from the industrial market economies, although always failing to keep pace with the high rates of expansion of the two other regions containing middle income developing economies - Southeast Asia and Southern Europe [Table 1(D)] [2].

3. DEBT AND STAGFLATION

Since the onset of the debt crisis in 1982, the adequate GDP growth rates, which were the redeeming factor in LA's economic development record, evaporated as thin air. LA countries not only stopped growing in absolute terms, but started losing ground both to other middle income developing economies, and to the industrial market economies [Table 1(D)]. Meanwhile, chronic inflation climbed to three digit levels [Table 3]. Not only is a decade of

---

2 According to the World Bank data, from which Table 1(D) is derived, LA actually managed to grow faster than Southern Europe from 1970 to 1981 - 5.2 percent against 5.0 percent, on the average - but this was not nearly enough to compensate for its higher rate of population growth - 2.3 percent against 1.6 percent per year.

growth been lost, but the perspective of secular stagnation today looms large in the economic horizon of most countries in the region.

LA's debt crisis exploded in August 1982, but at least in the oil importing countries of the region, the need to adjust was set off by the oil price hike of 1979 and the subsequent reaction from the OECD countries [3]. Considering that crisis to be cyclical, most of these countries borrowed heavily to finance their mounting current account deficits. In some of them, specially in the Southern Cone, borrowing was used to expand imports to help lower inflation, thus leading to ever more overvalued exchange rates.

For their part, oil exporters, butressed by forecasts of ever growing energy prices in the future, also borrowed heavily. In merely two years, 1980 and 1981, the region's external debt rose some $100 billion to nearly $290 billion, most financed by commercial banks. This heady but unstable state of affairs came to a close in 1982, with the prolongation of the recession in the OECD and the Mexican moratorium. Adjustment became mandatory in all countries.

Stagflation was the consequence of LA's adjustment to the debt crisis. This involved two sets of external shocks - external financial strangulation and terms of trade deterioration.

---

3 The following two paragraphs merely summarize the contents of the section on the origins of the crisis and the need for adjustment of the excellent paper on the debt crisis by Bianchi, Devlin and Ramos.

Financial strangulation resulted from the sharp curtailment of foreign finance at a time when interest payments were increasing substantially. This forced LA not only to reduce abruptly its current account deficit, but also to start generating a substantial transfer of real resources abroad - as measured by the region's trade surplus, inclusive of non-factor services. The burden of this transfer was magnified by the fact that, at the same time, the external terms of trade turned significantly against the region's primary product exports, which meant that a higher volume of exports became necessary to generate the same trade surplus.

The strength of these shocks is indicated in Tables 4 and 5. Table 4 measures the impact of the net transfer of financial resources, i.e., the difference between net capital inflows and net factor services. This had a positive value of 2.5 percent of LA's GDP in 1979/81, but then it became negative in 1982, to reach an average value of -4.6 percent in 1983/85. This negative turnaround of 6 percent of GDP was aggravated by the concomitant deterioration of LA's terms of trade, as measured in Table 5, which chopped off an additional 1.8 per cent of LA's GDP in the 1981/86 period.

From a macroeconomic perspective, these shocks were absorbed by the LA economies almost entirely through a contraction of real investment rates. Table 6 pictures the consequence of the external strangulation process. This table shows the behavior in the 1979-86 period of the ratio of investment to GDP, and of its sources of financing, namely the net transfer from abroad and internal savings. The net transfer is equal to foreign savings (i.e., the current account deficit) minus net factor services to abroad [4]. Internal savings is equal to the difference between GDP and consumption . As indicated in the table, internal savings did not rise to compensate for the sharp negative movement of the net resource transfer to abroad, from the 1979/81 to the 1983/85 period, and, as a consequence, investment ratios dropped sharply, from over 23 to close to 17 per cent of GDP [5].

Table 6 indicates the behavior of the ratio of nominal investment to nominal GDP. In real terms, investment must have dropped even more, in view of the terms of trade decline - as this decline artificially raises the nominal value of investment in comparison to nominal GDP, because of the high import component of the former [6].

The previous discussion suggests that there was not any significant deterioration of the "internal" savings rate in LA during the 1980s. This is contrary to the perception of some observers. For example, Balassa et al assert that:

---

4 The difference between the net financial transfer in Table 4 and the net resource transfer in Table 6 corresponds to net foreign reserves accumulation in L.A.

5 Different sources were used to construct Table 5, as indicated in the notes to the table. In particular, the investment ratio and the net transfer ratio were calculated using different methodologies; this may distort the figures for internal savings - which are calculated as the difference between investment and the net transfer to abroad - but the bias of these calculations, if any, could not be determined.

6 This presumes that non-traded goods prices, which must weight more heavily in the implicit price deflator of GDP than in that of investment, follow more closely the prices of exports than those of imports.

"This decline [of the investment ratio] reflected large decreases in the inflow of capital...and a fall in domestic savings ratios in most countries... Domestic savings ratios declined in conjunction with the near stagnation of Latin American economies in the first half of the 1980s (p. 97)."

There seems to be an error in this evaluation, stemming from the adoption of an innapropriate concept of savings to analyze whether or not domestic economic behavior aggravated the impact of the external shocks. In the first place, one clearly wants the increase in international interest rates to show as an external shock and not as a domestic maladjustment. However, if output does not expand and/or consumption does not contract, this increase in dollar interest rates will be accounted for as a decline of national savings, when this concept is conventionally measured, as the difference between GNP (which is now lower because of the higher interest outflows) and consumption. It is this peculiarity which justifies the replacement of "national" savings by "internal" savings, as a more adequate concept to measure the relative importance of external shocks and domestic economic actions in altering the financing of domestic investment7. This substitution also implies that the foreign contribution to domestic investment financing should be measured, not by the current account deficit, but by the eventual trade-cum-non-factor-services deficit, also known as the net resources gap.

---

7 In order to avoid terminological confusion, Andrés Bianchi has suggested to me that it would be better to abandon the term "domestic savings" altogether. For it is currently used to denote our concept of "national savings", while containing the word "domestic", which would tend to associate it with GDP rather than with GNP, that is, with our proposed concept of "internal savings".

A terms of trade deterioration may also lead to a decline of the nominal savings rate, because nominal consumption tends to increase relative to GDP when import prices rise in relation to export prices [8]. For this reason, an appropriate accounting framework must be able to isolate the impact of terms of trade changes from alterations in "real" domestic economic magnitudes. When these methodological precautions are taken, the available data seem to confirm that domestic actions cannot be faulted for an aggravation of the negative impact of the external shocks in the region's economies.

However, the available data also suggests that the region's reaction to the external shocks was entirely passive - when these shocks hit, investment rates simply shrank, both through a direct contraction of government capital formation and a crowding out of private investment. This demand contraction provided the necessary room to allow other demand switching measures - such as import controls and real exchange rate devaluations - to be effective in expanding the trade surpluses.

This is not whole story, however. Adjustment through recession rather than through demand switching was widespread in the region, particularly in the 1981/83 period, and in those countries which were more strongly hit by the external shocks or lacked the necessary structural flexibility to expand exports or

---

8 The importance of this effect depends on the weight of imports in consumption, and also on the behavior of the prices of non-traded goods and services entering both the GDP and the domestic consumption deflators.

substitute imports - even because they had failed to keep up investment after the first oil shock. In these circumstances, declines in output and employment became inevitable, in view of the sharpness of the external shocks.

4. ECONOMIC MALADJUSTMENTS

The LA pattern of adjustment to the external shocks was, thus, not conducive to the sustenance of economic growth in face of external adversity. In contrast to the experience of other medium income developing countries, the available data indicate that LA countries did not succeed in expanding their capacity to invest, through increases either in productivity or national savings.

Moreover, although external financial strangulation was by and large a consequence of foreign economic actions, capital flight was an important part of the story in some LA countries. This was particularly the case in Argentina, Mexico, and Venezuela -- which, until 1983, practiced disequilibrium exchange rates and domestic interest rates, while maintaining free conversibility in the capital account. Brazil and Colombia, by contrast, which combined the adoption of more nearly equilibrated exchange rates and domestic interest rates with strict outward capital controls, were by and large successful in avoiding significant capital flight.

Both the comparative record of LA economic development in the postwar period, and its lethargic reaction to the external shocks of the 1980s, are clear indications of the deep seated weakenesses of the region's economic system.

Bianchi, Devlin and Ramos identify four features of the region's economies which magnified the impact of the shocks and limited the speed and capacity of response. First was a high level of external debt. The debt-led strategies of the 1970s raised the debt/export ratio from 1.4 in 1970 to 2.3 in 1979 - which constrasts with a ratio of 1.0 in South Korea, for example. The second was the high proportion of debt at floating interest rates - 2/3 of it, in constrast to Asia in general - 12% - and South Korea, in particular - 33%. The third was the low level of exports relative to GDP. Exports averaged 13% of GDP in 1979, as opposed to South Korea's 38%. Fourthly, the region was very highly dependent on the export of primary commodities. Some 75% of LA exports were made up of a relatively few, natural resource intensive commodities. This contrasts with South Korea, where 90% of exports were represented by manufactured products, with far more responsive supply and demand schedules. They concluded that, when interest rates shoot up and capital inflows collapsed, manufactured exports could not possibly expand as fast as in Korea. Thus, adjustment could not have been expansionary.

The debt crisis also revealed other structural rigidities of the LA's economies. Most of the LA external debt was contracted by these countries' governments, either directly or through their state enterprises. Moreover, when the debt crisis erupted, under the pressure of external creditors and private domestic debtors, the LA governments ended up by nationalizing a good part of the external debt originally contracted by the local private sector. Nowadays, nearly all medium and long term LA debt is the responsibility of the governments of the region. Thus, the external financial strangulation provoked not only a balance of payments crisis, but also - and perhaps more importantly, when viewed in retrospect - a major fiscal crisis.

In the circumstances, a domestic transfer needed to be made, from the private to the public sector, as a counterpart to the sharp and sudden increase in the transfer of resources to abroad. In principle, the resources could have come from additional taxes, contraction of other government expenditures, the printing press, or from public sector borrowing in the domestic capital market.

As a general rule, LA goverments failed to raised additional taxes or to contract their consumption expenditures. Adjustment was done by reducing public sector investment - both in infrastructure and social services - and by borrowing more heavily either from the banking sector or the local capital markets. Additional domestic government borrowing tended to crowd private sector investment out, thus completing the stagflationary pattern of LA's adjustment to the debt crisis.

The problems caused by the awkwardness of the public sector adjustment were compounded by the negative impact of the widespread indexation mechanisms which developed in LA, as a means of maintaing an approximate parity among relative prices, in face of chronic inflation. It was such automatic and retrospective indexation mechanisms - applying to wages, exchange rates, public sector tariffs and prices, government controlled prices in the private sector, and interest rates - which allowed countries like Brazil to maintain relatively high rates of economic growth in spite of extremely high rates of inflation.

But the existence of such rigid indexation mechanisms tended to provoke a substantial acceleration of inflation rates, when LA economies were hit by the external shocks and, additionally, had to devalue their currencies to compensate for these shocks. A simple model helps to understand why.

Let prices be formed on the basis of a fixed mark-up over primary costs, which consist of labor costs and imported input costs:

$$P = M(W + EP*) \qquad (1)$$

where P is the final output price: M, is 1 plus the fixed mark-up rate; W, the wage rate; E, the exchange rate; P*, the imported input price in foreign currency; and where the labor and material input coefficients are normalized at unity.

Let small letters stand for the rate of change of the variable in the period. Then, the following expression obtains from (1) for the rate of inflation:

$$p = aw + (1-a)(e + p^*) \tag{2}$$

where a is the labor share in primary costs. Assume that wage changes are indexed to the change of output prices in the previous period, the same happenning with the exchange rate, except that this may change by more, reflecting a maxidevaluation. The rates of change of wages and of the exchange rate are then given respectively by:

$$w = p(-1) \tag{3}$$

and by:

$$e = p(-1) + u \tag{4}$$

where u reflects a maxidevaluation in a given time period. After simplification, substitution of (3) and (4) into (2) leads to:

$$p = p(-1) + (1-a)(p^* + u) \tag{5}$$

This shows that an external price shock or a maxidevaluation leads to an acceleration of the rate of inflation - proportionally to the share of imported inputs in primary costs -, and not only to a jump in the price level, as might be the case in non-indexed economies. Obviously, this acceleration of inflation would have to be validated by a quickening of monetary expansion, but this was certain to come, in view of the added budgetary difficulties of the central government, caused by the external shocks, as previously described [9].

5. TOWARDS NEW POLICIES AND INSTITUTIONS

The previous section reviewed a number of structural problems of LA economies, which are helpful to explain both the insatisfactory economic performance of the region in the postwar period and the stagflationary phasis which it has been experiencing since the beginning of the 1980s. Three groups of interrelated factors were identified:

(i) the high level of public sector external debt contracted at floating interest rates;

(ii) the low level of industrial exports and the high dependence on a handful of primary commodities; and

(iii) the lack of flexibility of the public sector and the rigid indexation mechanisms.

A fourth component should be added, which is the extreme degree of concentration of income and wealth. Inward orientation, an inoperative public sector, and a high concentration of land ownership and educational levels, seem to be important explanatory factors for the region's economic maladjustments, as revealed in its high incremental capital output ratios.

---

9 Note, also, that a maxidevaluation increases the public sector domestic borrowing requirements, when foreign interest payments are higher than the net loans to the government from abroad, which was the case everywhere in LA after 1982.

Debt and inflation, which were the scape valves of LA in the 70s, became its major problems in the 80s. It is not clear that the region will be able to pull itself out from its present calamitous state without a major international debt relief initiative, but clearly the region's economic problems run deeper than its external debt.

As Bianchi, Devlin and Ramos point out, to grow out of the debt problem would require a structural transformation in two senses: the growth strategy needs to be outward oriented and largely based on domestic efforts to raise savings and productivity. Public sector reform - involving privatization of public enterprises, an administrative overhaul, tax simplification and universalization, and a modernization of the state's regulatory framework - should be an important ingredient of this process. A broad consensus on the needed structural changes seem to be taking shape in LA, as expressed by Bianchi, Devlin and Ramos:

> "It is likely that there will be much agreement as to the importance of a less inward oriented, more export led growth; of far greater domestic savings; of a more focused distributive effort; of far improved productivity and efficiency; and of the need for a firmer, more coherent and stable macroeconomic policy".

Agreement on such general principles is a first important step, even though the means to achieve them are not very much in sight in the region. For, as Fishlow points out, despite signs of convergence in theoretical approaches, ultimately, the strategy chosen for policy implementation will depend upon political considerations rather than economic consistency.

Policy making, in turn, as observed by Amadeo and Banuri, should be seen not as the autonomous actions of an omnipotent state, but rather as the constrained decisions of one actor among many operating in a situation of conflict and tension. The nature and intensity of social divisiveness and polarity historically observed in LA have traditionally constrained the autonomy of governments to pursue agreed upon macroeconomic objectives.

Now that inflation and debt ceased to be temporary solutions to these internal social conflicts, LA countries - with their high levels of political tension and their long history of political mobilization and organization along functional lines - are faced with a major challenge to put their acts together and pull themselves out of their current trend towards secular stagnation. Effective policy changes may require new institutions, capable of coping with social conflict in a more productive manner than in the past. Amadeo and Banuri suggest, for example, that labor conflicts and wage rigidities could be dealt with, by adaptation to LA conditions of the social corporatist model of Northern Europe, rather than following the "weak labor" model of East Asia, favored by Balassa et al.

It is a high order, but we may perhaps take comfort in Lord Keynes' dictum, that today's politicians are the slaves of the thoughts of some defunct economist. And then hope that history will accelerate sufficiently fast to guarantee that the needed institutional and policy changes will be effected before we find ourselves underground.

REFERENCES

Amadeo, E. and T. Banuri, "The importance of institutions and history in development policy: a comparison of macroeconomic experience in Asia and Latin America". Paper prepared for the Macroeconomic Policy Group at WIDER. Rio de Janeiro and Helsinki, mimeo, June 1987.

Balassa, B., G. M. Bueno, P. P. Kuczynski, and M. H. Simonsen, Toward Renewed Economic Growth in Latin America. Washington, DC: Institute for International Economics, 1986.

Bianchi, A., R. Devlin, and J. Ramos, "The adjustment process in Latin America, 1981-86". Paper presented to the Symposium on Growth-Oriented Adjustment Programs. Washington, DC: The World Bank and the IMF, processed, February 25-27, 1987.

Economic Comission for Latin America/United Nations (ECLA), Balance Preliminar de la Economía Latinoamericana 1987. Santiago de Chile: United Nations, LC/G.1485, 12/31/1987.

Inter-American Development Bank (IDB), Economic and Economic Progress in Latin America - 1986 Report. Washington, DC: Inter-American Development Bank, 1986.

International Monetary Fund (IMF), World Economic Outlook - October 1987. Washington, DC: International Monetary Fund, 1987.

The World Bank (WB), World Tables, 3rd. ed., Vol. 1 - Economic Data. Baltimore: The John Hopkins University Press, 1984.

The World Bank (WB), World Development Report 1987. New York: Oxford University Press, 1987.

TABLE 1

LATIN AMERICA AND OTHER REGIONS:
COMPARATIVE MACROECONOMIC RECORD

(A) AVERAGE NATIONAL SAVINGS RATIOS (*), 1960-81

Regions(**)	1960	1970	1981
Latin America and the Caribbean	19.4	20.4	19.5
Southern Europe	18.6	20.6	18.8
East Asia and Pacific	10.3	18.0	25.7
Industrial market economies	23.2	25.0	22.0

(B) INCREMENTAL CAPITAL-OUTPUT RATIOS, 1960/1981 (***)

Region	1960/65	1965/70	1970/81
Latin America and Caribbean	3.6	3.2	3.6
Southern Europe	3.7	3.5	5.4
East Asia and Pacific	2.4	2.4	3.2
Industrial mkt economies	4.2	5.2	7.9

[Table 1 continues next page]

[Table 1, continued]

(C) EXPORTS AND MANUFACTURING RATIOS, 1980/81

Region	Share of manufacturing in GDP at factor costs, excluding services (1981)	Share of manufactures in total merchandise exports (1980)	Share of exports of goods and NFS in GDP at market prices (1980)
Latin America and the Caribbean	43.9	22.2	16.9
Southern Europe	50.5	65.3	22.0
East Asia and Pacific	47.2	47.0	47.2
Industrial market economies	53.8	73.6	19.8

(D) COMPARATIVE GDP GROWTH RATES, 1950-86
(average annual real growth rates)

Regions	1950-65 total	(per capita)	1965-81 total	(per capita)	1981-85 total	(per capita)
Latin America and Caribbean	4.9	(1.9)	5.5	(2.9)	1.4	(-0.8)
Southern Europe	6.2	(4.4)	5.6	(3.9)	2.5	(1.3)
East Asia and Pacific	5.4	(2.8)	8.0	(5.6)	4.8	(2.7)
Industrial market econ.	4.6	(3.3)	3.6	(2.8)	2.8	(2.2)

[Table 1 continues next page]

[Table 1 continued]
NOTES TO TABLE 1:

(*) Gross national savings (excluding net current transfers from abroad), expressed as a percentage of gross national product at current market prices.
(**) The following are the countries included in each region:

Latin America and the Caribbean: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, French Guiana, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Netherlands Antiles, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, St. Kitts-Nevis, St. Lucia, St. Vicent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela, Virgin Islands (U.S.).

Southern Europe: Cyprus, Gilbratar, Greece, Israel, Malta, Portugal, Turkey, Yugoslavia.

East Asia and Pacific: American Samoa, Fiji, French Polynesia, Guam, Hong Kong, Indonesia, Kampuchea Democratic, Kiribati, Korea Democratic Republic, Korea Republic, Lao People's Democratic Republic, Macao, Malaysia, Mongolia, New Caledonia, Papua New Guinea, Philippines, Singapore, Solomon Islands, Thailand, Tonga, Trust Territory of the Pacific Islands, Vanuatu, Viet Nam, Western Samoa.

Industrial Market Economies: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany Federal Republic, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, United Kingdom, United States.

(***) Calculated as the sum of the gross domestic fixed investment from the first year of the period to the year preceding the ending year, divided by the change in GDP over the period (both at constant prices). Since the total of fixed investment prior to 1970 is not available for the Latin American countries, gross domestic investment was used for 1960/65 and 1965/70.

SOURCE: WB (1984) and by private communication.

TABLE 2

LATIN AMERICAN COUNTRIES AND OTHERS:
SHARE OF THE LOWEST 40 PERCENT
IN HOUSEHOLD INCOME

Region and Country	Year	Lowest 40 percent income share
Latin America and the Caribbean		
El Salvador	1976-77	15.5
Peru	1972	7.0
Costa Rica	1971	12.0
Brazil	1972	7.0
Mexico	1977	9.9
Argentina	1970	14.1
Venezuela	1970	10.3
Trinidad and Tobago	1975-76	13.3
Southeast Asia and Pacific		
Indonesia	1976	14.4
Philippines	1985	14.1
Thailand	1975-76	15.2
Malaysia	1973	11.2
Rep. of Korea	1976	16.9
Hong Kong	1980	16.2
Southern Europe		
Turkey	1973	11.5
Portugal	1973-74	15.2
Yugoslavia	1978	18.7
Israel	1979-80	18.0

SOURCE: WB (1987), Table 26, pp. 252-3.

TABLE 3

LATIN AMERICA AND OTHER REGIONS:
COMPARATIVE INFLATION RATES, 1969-85
(average compound annual rates of change of consumer prices)

Region	1969-79	1980-82	1983-85
Latin America and the Caribbean [i]	32.3	60.4	126.9
Asia(developing countries) [ii]	8.6	10.0	7.1
Europe(developing countries) [iii]	11.8	29.9	24.5
Industrial market economies [iv]	7.7	9.8	4.6

NOTES: [i] As in Table 1, excluding Bermuda, Cuba, French Guyana, Guadeloupe, Martinique, Puerto Rico, and Virgin Islands(U.S.).

[ii] Afghanistan, Bangladesh, Burma, China, Fiji, India, Indonesia, Korea Republic, Lao P.D. Rep., Malaysia, Maldives, Nepal, Pakistan, Papua New Guinea, Philippines, Singapore, Salomon Islands, Sri Lanka, Thailand, Vanuatu, Viet Nam, Western Samoa.

[iii] Cyprus, Greece, Hungary, Malta, Poland, Portugal, Romania, Turkey, Yugoslavia.

[iv] As in Table 1.

SOURCE: IMF (1987), Tables A9 and A11, pp. 48 and 50.

TABLE 4

LATIN AMERICA: IMPACT OF THE NET TRANSFER OF FINANCIAL RESOURCES, 1979-86

Year	Net capital inflows (US$bi)	Net factor services (US$bi)	Transfer of financial resources from abroad US$bi	as a % of GDP
1979	29.1	-13.6	15.5	3.4
1980	29.7	-18.2	11.5	2.2
1981	37.6	-27.2	10.4	1.8
1982	20.4	-38.8	-18.4	-3.0
1983	3.0	-34.4	-31.4	-5.1
1984	9.3	-36.3	-27.0	-4.1
1985	3.3	-34.8	-31.5	-4.5
1986	8.7	-30.5	-21.8	-2.9

NOTE: The transfer of financial resources from abroad is equal to the difference between net capital inflows and net factor services.
SOURCE: ECLA (1987), Table 15, p. 23; except for the GDP figures which are as in Note B of Table 6.

TABLE 5

LATIN AMERICA: IMPACT OF THE TERMS OF TRADE DETERIORATION, 1980-86

Year	Merchandise exports at constant 1980 dollar prices (US$blns.)	Terms of trade (1980= 1.0)	Purchasing power of exports (PPE) (US$blns.)	Difference between PPE and exports at constant 1980 US dollar prices US$blns.	as a % to GDP in 1980 prices
1980	89.1	1.000	89.1	---	---
1981	95.9	.940	90.1	- 5.8	-1.1
1982	87.4	.852	74.5	-12.9	-2.5
1983	87.5	.856	74.9	-12.6	-2.5
1984	97.7	.930	90.9	- 6.8	-1.2
1985	92.0	.910	83.7	- 8.3	-1.5
1986	78.3	.840	65.8	-12.5	-2.2

NOTE: The purchasing power of exports is equal to the product of the constant dollar value of exports by the terms of trade.

SOURCES: ECLA(1987), Tables 12 and 15, pp. 20 and 23; and Bianchi, Devlin, and Ramos, Table 2; except for the GDP in 1980 dollars, the sources for which are as in Note B to Table 6, with the following values in US$ billions: 1980 ($524.5), 1981 (528.1), 1982 (521.8), 1983 (508.2), 1984 (527.6), 1985 (545.4), 1986 (565.4).

TABLE 6

LATIN AMERICA:
FINANCING OF CAPITAL FORMATION
(in percent of GDP)

Year	Gross capital formation (1)	Foreign savings (2)	Factor services (3)	Net transfer from abroad (4)	Internal savings (5)
1979	23.4	4.7	-2.4	2.3	21.1
1980	23.3	5.8	-3.0	2.8	20.5
1981	23.2	7.4	-4.2	3.2	20.0
1982	20.5	7.0	-5.7	1.3	19.2
1983	17.4	1.8	-5.3	-3.5	20.9
1984	17.4	0.4	-5.3	-4.9	22.3
1985	17.4	0.6	-4.6	-4.0	21.4
1986	18.8	2.3	-3.9	-1.6	20.4

SOURCES AND NOTES: (A) Gross capital formation is as in IMF (1987), Table A7, p.46, and represents arithmetic averages of country ratios, weighted by the average US dollar value of GDPs over the preceeding three years.

(B) Foreign savings is equal to the current account balance and factor services is equal to the net investment income, as they appear in US dollar terms in IMF (1987), Table A36, p. 79. The US dollar value of LA GDP was calculated as follows: the basis was an estimate of the GDP value for 1984 in IDB (1986), Table 3, p. 408; the other numbers were constructed by applying the US GDP price deflator (in IMF, 1987) to the real product series in ECLA (1987). The estimated series for LA's GDP in US$ billion is as follows: 1979(453.0), 1980(524.7), 1981(578.8), 1982(608.5), 1983(614.9), 1984(662.3), 1985(706.8), 1986(751.9).

(C) The values for net transfers from abroad were obtained as a residual, from the identity: (4) = (3) + (2).

(D) The values for internal savings were obtained as a residual, from the identity: (5) = (1) - (4).

TEXTOS PARA DISCUSSÃO

DEPARTAMENTO DE ECONOMIA - PUC/RJ

150. Abreu, M.P. e W. Fritsch; "GSP Graduation: Impact on Major Latin American Beneficiaries".

151. Franco, G.H.B.; "Fiscal 'Reforms' and the Ends of Four Hyperinflations".

152. Carneiro, D.D.; "The Cruzado Experience: An Untimely Evaluation After Ten Months/1".

153. Amadeo, E.J. e A.K. Dutt; "The Neo-Ricardian Keynesians and the Post-Keynesians".

154. Modiano, E.M.; "The Cruzado Plan: Theoretical Foundations and Practical Limitations".

155. Franco, G.H.B.; "Política de Estabilização no Brasil: Algumas Lições do Plano Cruzado".

156. Neto, A.F.; "Problemas do Controle Monetário no Brasil".

157. Abreu, M.P. e W. Fritsch; "G-5 Policies, Credit Availability and Latin American Growth".

158. Bacha, E.L.; "Do Acordo de Plaza à Moratória Técnica: os Tortuosos Caminhos da Renegociação da Dívida Externa Brasileira, 1983-87".

159. Franco, G.H.B.; "The Rentenmark 'Miracle'".

160. Moggridge, D.E.; "Problems in the History of the International Economy since 1870: the Gold Standard".

161. Correa do Lago, L.A.; "Investimentos Diretos no Brasil e a Conversão de Empréstimos em Capital de Risco".

162. Moraes, P.B.; "Keynes and the Role of Monetary Policy in a Stabilization Program".

163. Werneck, R.L.F.; "Public Sector Adjustment to External Shocks and Domestic Pressures in Brazil, 1970-85".

164. Moggridge, D.E.; "On Editing Keynes".

165. Modiano, E.M.; "Necessidade e Dificuldade de um Novo Cruzado".

166. Modiano, E.M. e W. Fritsch; "A Restrição Externa ao Crescimento Econômico Brasileiro: uma Perspectiva de Longo Prazo".

167. Franco, G.H.B.; "Um Modelo para a Adoção de Indexação em Condições de Alta Inflação".

168. Amadeo, E.J.; "Multiplier Analysis".

169. Amadeo, E.J.; "Expectations in a Steady State Model of Capacity Utilization".

170. Bacha, E.L.; "Project Analysis and Income Distribution: Notes on the IDB/ OECD Conference".

171. Modiano, E.M.; "Plano Cruzado: a Primeira Tentativa".

172. Feinberg, R.E. e E.L. Bacha; "When Supply and Demand don't Intersect: Latin America and the Bretton Woods Institutions in the 1980s".

173. Modiano, E.M.; "O PIB em 1987: Expansão, Recessão ou Estagnação?".

174. Bacha, E.L.; "Escaping Confrontation: Latin America's Debt in the Late Eighties".

175. Werneck, R.L.F.; "Um Modelo de Simulação para Análise do Financiamento do Setor Público".

176. Amadeo, E.J.; "Controversies over the Equilibrium Position in Keynes's General Theory".

177. Amadeo, E.J.; "Teoria e Método nos Primórdios da Macroeconomia [IV]: Hicks e o Difícil Compromisso entre Tempo e Equilíbrio".

178. Franco, G.H.B.; "Direct Investment in Brazil: Its Role in Adjustment and Emerging Issues".

179. Carneiro, D.D.; "Heterodoxia e Política Monetária".

180. Modiano, E.M.; "Repasses Mensais X Reajustes Trimestrais".

181. Bacha, E.L.; "Moeda, Inércia e Conflito: Reflexões sobre Políticas de Estabilização no Brasil".

182. Corrêa do Lago, L.A.; "Economic Relations of Brazil and the European Economic Community in the Post-War Period: a Historical Perspective and the Present Situation".

183. Modiano, E.M.; "Novo Cruzado e Velhos Conflitos: o Programa Brasileiro de Estabilização de 12 de Junho de 1987".

184. Franco, G.H.B.; "Assimetrias Sistêmicas sob o Padrão Ouro".

185. Fritsch, W. e G.H. Franco; "Investimento Direto: Teoria e Evidência Empírica".

186. Moraes, P.B. e L. Serven; "Currency Substitution and Political Risk: México 1978-82".

187. Abreu, M.P. e W. Fritsch; "Obstacles to Brazilian Export Growth and the Present Multilateral Trade Negotiations".

188. Abreu, M.P. e W. Fritsch; "New Themes and Agriculture in the New Round: A View from the South".

189. Abreu, M.P. e W. Fritsch; "Market Access for Manufactured Exports from Developing Countries: Trends and Prospects".

190. Modiano, E.M.; "The Two Cruzados: The Brazilian Stabilization Programs of February 1986 & June 1987".

191. Abreu, M. de P.; "Indicadores Sociais Revisitados: Paradigmas Internacionais e Brasileiros".

192. Abreu, M. de P.; "British Investment in Brazil: The Relevant Century, 1850-1950".

193. Abreu, M. de P.; "Brazil as a Creditor: Sterling Balances, 1940-1952".

194. Abreu, M. de P.; "On the Memory of Bankers: Brazilian Foreign Debt, 1824-1943".

195. Fritsch, W. e G.H.B. Franco; "Investimento Direto: Tendências Globais e Perspectivas para o Brasil".

196. Werneck, R.L.F.; "Uma Contribuição à Redefinição dos Objetivos e das Formas de Controle das Empresas Estatais no Brasil".

197. Bacha, E.L.; "Capturing the Discount: Towards a Debt Facility at the Bank and the Fund".

198. Bacha, E.L.; "Latin America's Debt Crisis and Structural Adjustment: The Role of the World Bank".